

TO THE SHAREHOLDERS OF THE CITIZENS INSURANCE COMPANY OF CANADA.

GENTLEMEN,

In my previous letter, I referred to the circumstances connected with the origin of your company, and sketched concisely the more salient events of its subsequent history to the present date, not so much to convey information, perhaps, as to remind you of the past, in order the better to estimate the present condition of our corporation.

It has occurred to me that a full *vindication* of the late board of directors requires that more special attention should be given to the events of the *past twelve months*, which culminated in the late annual general meeting held in the Head Office of the company, on the 4th of March last.

Permit me, however, in the outset, to remind you that there is in insurance, as in other lines of business, good years and bad years, and if in the course of five years working three of them shall produce a surplus of earnings over losses and expenses, it is deemed by insurance men a fair average of success.

BAD YEAR.

The year 1887 was a very poor year for your company, the fire losses in town and country were numerous and of comparatively large amounts, especially was this true of the City of Montreal; nor were the losses experienced chiefly in what have might been deemed the inferior classes of risks, but the better ones proved practically no better than others, not so highly estimated.

CHANGE OF GOVERNMENT INSPECTOR.

During this period, Professor Cherriman resigned the office of Superintendent of Insurance at Ottawa, and Mr. W. Fitzgerald, Barrister-at-law of Toronto, was appointed in his place.

NEW RULES.

In the investigation of the company's affairs, Mr. Fitzgerald deemed it to be his duty to apply a more stringent rule than had obtained previously, in respect especially of the company's obligations.

To explain, it had been usual in the annual statement to include the unsettled losses remaining over from the previous year, and also the premiums in the hands of the agents, in process of collection, but not paid at the close of the year. Thus the debits being met in full or otherwise, as the case might be, by the credits of accruing premiums to be received in the following month.

The new officer, however, charged the company with unsettled loss claims as before, but declined to consider as an offset premiums in course of collection.

REDUCTION OF ASSETS.

In the examination of the assets of the company, Mr. Fitzgerald reduced the valuation of the fixed property, and applied the scalpel with heroic effect to the item of outstanding claims, the result being that a sum of about thirty thousand dollars was written off. There can be no doubt that a large part, if not the larger part of these claims, some of which had confessedly become obsolete, should have been removed from the list of assets, and it would have been better if the Board had required that a certain sum should have been annually charged to profit and loss, to cover doubtful claims; this not having been done previously, it was unfortunate, and perhaps unfair, that the whole amount should be charged to the operations of one year, and that a poor year as we have seen.

PROVINCIAL TAX.

Justifying the proverb that "misfortunes never come singly," the Provincial tax case was decided against the commercial corporations this year, and the tax accruing against your company, during the years of contestation, had to be met in full with costs.

INSURANCE RESERVE.

Further, your company's assets were debited as usual with the *contingent liability* of "*Insurance Reserve*" upon all its business, in a proportion in excess of that which obtains in Great Britain, and larger, I hold, than can be fairly justified. The subject, however, is one than cannot be satisfactorily dealt with, within the limited space of a letter, and therefore I will not enlarge upon it here.

RESULT.

The result of the whole process of pruning, taken together with the losses in the fire branch referred to above, had the effect to present the company, *i. e.*, your company, in a condition, not to put too fine a point upon it, not pleasant to contemplate by its friends.

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RESPONSIBILITY OF DIRECTORS.

1st. I assume that no one will pretend that the management was responsible for the large losses which accrued this year, as distinguished from other years.

2nd. Neither was the Board responsible for the payment of the Provincial tax, nor for the exclusion by the Superintendent of uncollected premiums in the hands of agents.

3rd. Nor for the excessive proportion of the Insurance Reserve fund, against which it has persistently protested, but always without success.

CALL UPON STOCK IMPOSED.

The immediate result of the government examination was to require the payment of additional cash capital to strengthen our resources ; and as the Superintendent declined to renew his license without a call being made of " at least 10 p. c.," there was no alternative for your Board but to give effect to it.

RENEWAL OF LICENSE.

There can be no doubt that if your company could be proved to be insolvent, the Superintendent would be justified in withholding his license ; but a company such as yours, having realized assets over liabilities of \$42,739.63, including or providing for the " Insurance Reserve " to the amount of \$362,074.05 (report of 1887), besides subscribed and uncalled capital to the amount of over *eight hundred thousand dollars*, seven-eighths of which is in good and solvent hands, could not be considered as insolvent, without a gross perversion of language.*

Doubtless your company could have gone on for the next ten years, as it had for the past similar period, without making any demand upon you, by borrowing liberally of our bankers at current rates of commercial discount, having always sufficient valuable securities to deposit as collateral ; but the government officer was of the opinion, the soundness of which could not be successfully contested, that the uncalled capital was a tangible asset, and as such should be availed of, otherwise it could have no value in estimating the responsibility of our company to its patrons and the public.

ALTERNATIVES.

The alternatives, presented however, were the enforcement of a call of 10 p. c. or deprivation of government license, which meant

* The amount of assets over liabilities and Insurance reserve report of 1888, is \$117,227.00, amount of capital paid in \$163,463.00

cessation of business and liquidation, with the prospect, that even the adoption of the latter would necessarily involve the former, as its immediate result; under these circumstances your board *unanimously* adopted the former alternative, and made two calls of 5 p. c., one due in August and the other in the month of November following.

EFFECT OF MAKING THE CALLS—OPPOSITION.

The issuance of the calls naturally excited much feeling, and not a little adverse criticism.

Some of our stockholders took a calm and reasonable view of the case, admitted that the cash capital available was quite too small, and expressed their intention to pay the calls as they matured; but another and larger portion were incensed at being called upon to pay more money on capital (having previously paid just 13½ p. c.), feeling no doubt that it is much easier to run a fire insurance company upon no funds, or upon a minimum of funds, than it was in the time of the Exodus to make bricks without straw, in Egypt.

OPPOSITION ORGANIZED.

A coterie of half a dozen dissentient stockholders constituted themselves a committee to defeat your board, and, if practicable, to close up your company.

Their first move was to induce your directors to convene a general meeting of shareholders, ostensibly to organize an investigation of affairs, but really to liquidate the company, fortunately this proposition was not entertained.

The next was to get a requisition signed by a sufficient number of stockholders, to compel your directors to convene a general meeting of the corporation, this also failed, for a sufficient number of signatures could not be obtained, after a very diligent canvass.

Nothing daunted however, another strategic movement was devised, and that was to obtain an extra or special examination of your company's affairs. This overture seemed modest and reasonable, and commended itself to your directors, who were desirous to make any fair concession to their opponents.

Your directors went further, they not only consented to the investigation proposed to them, they also accepted the nomination of experts made by the self-constituted committee, and agreed to remunerate them liberally for their services.

Without wishing to impugn the good faith of these gentlemen

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(experts), it would have been better and more satisfactory in every point of view, had your directors nominated one of the proposed examiners.

REPORT OF EXAMINATION.

After a period which seemed unnecessarily protracted, the experts, Messrs. Boulton of the National of Ireland, and ~~Magnon~~ ^{Magnon}, formerly of Royal Canadian, filed the report of their examination, supplying one copy to the directors, and one to the committee. Without entering into particulars, it will be sufficient to say that the report was not generally favourable to the company, and although it covered more ground than that of the government inspector, it was of but little more value for any practical purpose, except in one particular, *e. g.*

It had been diligently and extensively reported that the management of your company is extravagant to an extent quite indefensible, but the experts proved that your fire branch was not more expensively managed than that of any other Canadian company, their opinion of the cost of working the life and accident branches were, however, not so favourable, but as they were practically unacquainted with these branches of insurance, their opinions were not entitled to much weight. *See p. 8.*

The examiners did not approve of the accident branch, nor a re-insurance contract made with one of the best insurance companies in the neighbouring country, but as the latter has proved profitable heretofore, and the former has been growing rapidly in importance, and promises to attain large and profitable proportions at no distant day, your Board did not feel themselves warranted in adopting the views of their special advisers. Finally, the experts were of the opinion that as in the past, your company might have the misfortune to encounter large fires, and to make heavy losses! but as this is true of all similar companies, the only practical inference that could be drawn from the remark was that the Citizens, like all other prudently managed companies, should be furnished with ample means to meet all legitimate demands, in which of course we all concurred.

It was a sore discouragement to the opposition committee, however, that the directors had communication of the special report, their intention seemed to be to retain it *en caché* in their own hands, and to produce it with dynamic effect at the general meeting of the company in March; but their friends, the experts, unwittingly spoiled their little game.

The opposition, nevertheless, were by no means at the end of their resources, as the sequel abundantly proved.

After consultation, it was decided to obtain all voting proxies possible, from absent shareholders, and others who could be influenced ; in the first place, to capture the management, and afterward, if possible, to liquidate the company.

OPPOSITION CIRCULAR.

With this object in view, a circular was prepared and sent out, intimating, in effect, that the company was in *extremis*, that a special investigation had been made into its condition, the result of which justified their worst fears, and if they, the shareholders, were desirous to prevent being forced to pay large sums, without any prospect of getting back any portion of that which had been already paid, it was essential that they execute the proxy enclosed in favor of one of the committee named.

The terms of this document were sufficiently alarming, those who received it were well aware that calls had been made, and they would naturally conclude that if a special investigation had been instituted, a *prima facie* case against your company must have been made out, and thus they would feel inclined to yield to the demand made upon them, which in fact they did in numerous cases.

CIRCULAR CONDEMNED.

So extremely erroneous and one-sided were the statements contained in the circular, in the view of the Board of Directors, that the general manager was instructed to consult the Messrs. Abbotts, the company's solicitors, to ascertain whether an action for libel would lie against its authors. No action however was taken, for it was held that however false and unfounded the statements might be, they being issued by stockholders, to other stockholders, ostensibly in their common interest, the document in question would be held in law to be privileged.

ANNUAL REPORT.

While the dissident committee were operating as we have seen with a diligence worthy of a better cause, the management was busy preparing the annual statements to be submitted to the approaching meeting in March, and which were issued some days in advance to the shareholders.

To the surprise of the committee no doubt, and perhaps to their disappointment also, it proved that the year 1888 had been an *extremely good one*, that after meeting all claims and making provi-

sions for all outstandings a surplus of \$60,425.70 remained to the good, and the usual dividend at the rate of six per cent. was declared. Probably it might occur to some of our fellow shareholders, that in view of a surplus so large, the writing off of thirty thousand dollars, say, once in ten years, was not such a formidable thing as it had been industriously represented to be, by our opponents, who I fear I must add did not appear to be overburdened with scruple in the modes of their operations.

THE COMMITTEE.

As I was not called to share in the deliberations of the Committee, I shall not venture to divulge the decisions they arrived at, having respect to the then approaching annual meeting; but if I were to hazard a guess, it would be that in view of such a favourable showing, it would not be politic to propose liquidation of the company, and they must content themselves with displacing two of the three retiring directors, who were candidates for re-election, and replace them by two of their own number, and this programme was carried out to the letter, at the meeting of the 4th March. The Honorable Mr. Abbott and Mr. J. O. Gravel were chosen directors in place of C. D. Proctor and Henry Lyman, who retired from the board; and here the curtain falls upon the scene, so far as this narrative is concerned, and must be left with you and the public to determine, in view of the circumstances, whether the Board, as previously stated, did or did not faithfully fulfil the trust confided to

CONCLUSION.

To recapitulate, my letter of March, giving a synopsis of the history of our Company from its commencement in 1864 to the close of the last year, and which for the most part came under my own personal cognizance, prepared the way for the present paper, the sole object of which is as before stated, to vindicate the management of the Board of Directors, as constituted prior to the recent election, and which I conceive to be incumbent upon me, as the then president of the Company.

The accusation made by the committee referred to above was specifically, that all the money paid in by the shareholders had been utterly and totally lost, and that the only means of preventing further and more serious losses was to send voting proxies to a suggested member of the committee.

The foregoing statement, that all paid in prior to the date of the circular had been lost, was not in accordance with fact and the assertion that further losses were imminent was entirely gratuitous. The only colourable excuse I can find for the course pursued by the committee is in their absolute ignorance of the interior economy and working of the Company, and in the invincible prejudice which so perverted the judgment of many shareholders that no statement or explanation the management could make was of any avail.

I have written of the gentlemen of the committee as a whole since they acted in concert, and with mutual consultation, it is but just however to say, that only one of them openly declared his intention to bring about the destruction of the corporation.

I am very respectfully yours,

HENRY LYMAN.

Late President C. I. C. of C.

THORNHILL,
MONTREAL, ~~15th April~~, 1889.

6. May

CITIZENS INSURANCE COMPANY

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I am very respectfully yours

THORNHILL,
MONTREAL, 15th April, 1889

6. May

P.S.—Since the foregoing was in type, the Superintendent of Insurance has issued advanced sheets of his report, from which I extract the proportion of expenses incurred in the *Fire branch* of the Citizens, and other principal Canadian Companies, for the year 1888:—

British America.....	34.90	per cent.
Western Toronto.....	37.20	" "
Royal Canadian.....	29.41	" "
Citizens of Canada.....	27.98	" "
2% interest on capital.		" including

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